Uncertain Tax Positions (UTP) and Accounting for Income Taxes Update

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December 1, 2010

Agenda

Uncertain Tax Positions (UTPs): Reporting to the IRS

Introduction to the Global Tax Provision

International Tax Update

Tax Accounting Update

Valuation Allowances

Question and answer

UTPs: Reporting to the IRS

Timeline

JAN 2010	FEB 2010	MAR 2010	APR 2010	MAY 2010	JUN 2010	JUL 2010	AUG 2010	SEP 2010

January 26, 2010
IRS releases Announcement 2010-9

March 5, 2010
IRS releases Announcement

Deadline extended for comments March 29 → **June 1, 2010**

April 19, 2010
IRS releases:
- Announcement 2010-30
- Draft Schedule UTP
- Draft Schedule UTP instructions

June 1, 2010
Comment period ends

September 9, 2010
IRS issued Notice of Proposed Rulemaking

September 24, 2010
IRS issued:
- Final Schedule UTP and final instructions
- Announcement 2010-75 — Overview of changes from draft instructions to final instructions
- Announcement 2010-76 — Expansion of IRS policy of restraint
- Directive to IRS field personnel setting forth the IRS's planned treatment of Schedule UTP by examiners and other IRS personnel

Who must file Schedule UTP

A company must file if it:

- Files one of the following forms:
  - *Form 1120*, U.S. Corporation Income Tax Return
  - *Form 1120 F*, U.S. Income Tax Return of a Foreign Corporation
  - *Form 1120 L*, U.S. Life Insurance Company Income Tax Return
  - *Form 1120 PC*, U.S. Property and Casualty Insurance Company Income Tax Return
- Has assets equal to or exceeding
  - $100 million (TY2010)
  - $50 million (TY2012)
  - $10 million (TY2014)
- Issued (or a related party issued) audited financial statement (including those filed under U.S. GAAP and IFRS) that covers all or a portion of the company's operations for the company's tax year
- Has one or more tax positions that must be reported on Schedule UTP

What uncertain tax positions must be disclosed

Tax position taken on a return – would result in adjustment to a line item on that return if not sustained

- Based on the unit of account used to prepare the audited financial statements
- If multiple tax positions affect a single line on the return, each position must be reported separately
- Transition rule for tax positions arising in tax years beginning before January 1, 2010

What tax positions must be reported in Schedule UTP?

If a reserve *was* recorded in the audited financial statements…

If a reserve *was not* recorded in the audited financial statements because the entity expects to litigate based on its conclusion that:

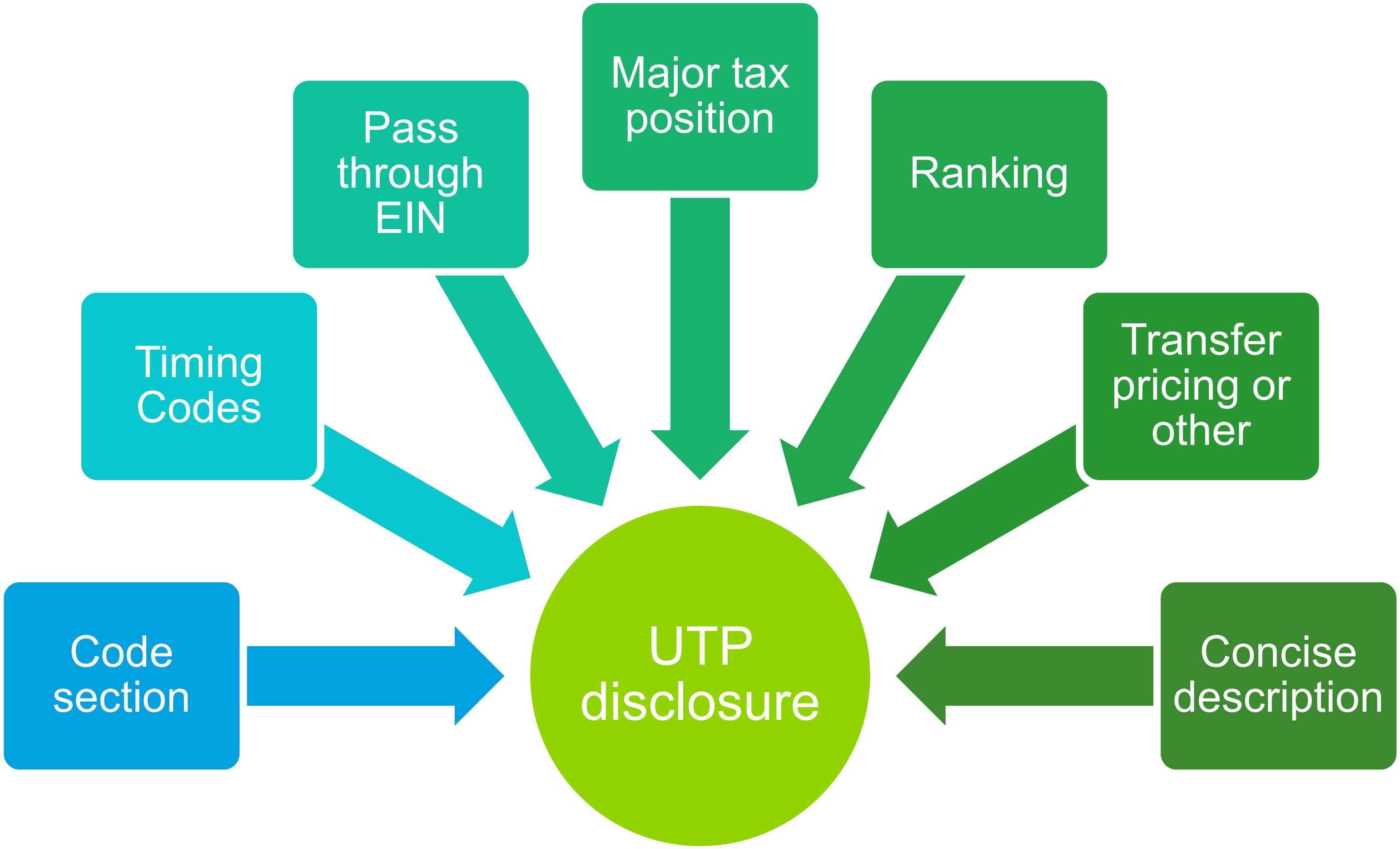
- The probability of settling is <50%.
- The entity intends to litigate.
- The entity is more likely than not to prevail on merits in litigation.

…then the position must be reported in Schedule UTP

If a reserve *was not* recorded in the audited financial statements because the position is immaterial or sufficiently certain under applicable financial accounting standards…

…then there is no requirement to report the position in Schedule UTP

Elements of disclosure



UTP number

Required disclosure element for Part I of Schedule UTP

SCHEDULE UTP (Form 1120)

Department of the Treasury
Internal Revenue Service

Uncertain Tax Position Statement

► File with Form 1120, 1120-F, 1120-L, or 1120-PC.
► See separate instructions.

OMB No. 1545-0123

2010

Name of entity as shown on page 1 of tax return | **EIN of entity**

This Part I, Schedule UTP (Form 1120) is page ____ of ____ Part I pages.

Part I **Uncertain Tax Positions for the Current Tax Year.** See instructions for how to complete columns (a) through (f). Enter, in Part III, a description for each uncertain tax position (UTP).

Check this box if the corporation was unable to obtain information from related parties sufficient to determine whether a tax position is a UTP (see instructions) ► ☐

(a) UTP No.	(b) Primary IRC Section (e.g., "61", "108", etc.)	(c) Timing Codes (check if Permanent, Temporary, or both)	(d) Pass-Through Entity EIN	(e) Major Tax Position	(f) Ranking of Tax Position
		☐ P ☐ T	-	☐	
		☐ P ☐ T	-	☐	

- Column A is simply an identifying number for the UTP that corresponds with the reporting in Part III.
- Note, however, that if multiple tax positions affect a single line on the return, each position must be listed separately.

Primary IRC section

Required disclosure element for Part I of Schedule UTP

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Department of the Treasury
Internal Revenue Service

Uncertain Tax Position Statement

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				☐ P	☐ T	-	☐	
				☐ P	☐ T	-	☐	

- For each UTP, provide up to three related IRC sections.

Timing codes

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		P T	-	☐	
		P T	-	☐	

- For each UTP, check "P" for permanent, "T" for temporary, or "P" and "T" if the position is both permanent and temporary.
- Timing categorization must be consistent with the accounting standards used to prepare the audited financial statement.

Pass-through entity EIN

Required disclosure element for Part I of Schedule UTP

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Department of the Treasury
Internal Revenue Service

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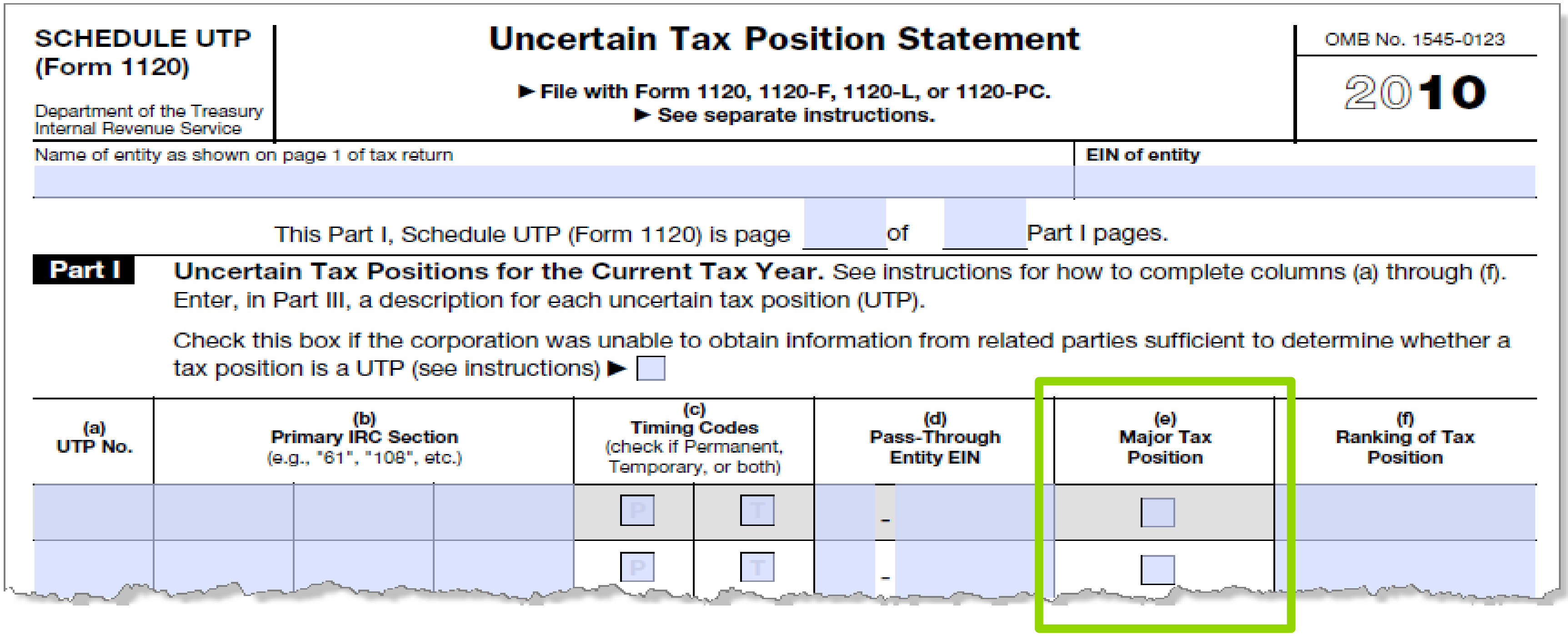
		P T	-	☐	

- For each UTP that relates to a tax position taken by a pass-through entity, enter the EIN of the other entity.
- Enter “F” for foreign pass-through entities that do not have an EIN.

Major tax position

Required disclosure element for Part I of Schedule UTP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		P T	-	☐	

- Size is ≥ 10% of aggregate size of all tax positions reported in Schedule UTP.
- “Size” means the amount of U.S. federal income tax reserve recorded for that position.
  - Same unit of account used to calculate the size of position in both the audited financial statement and Schedule UTP.
  - Reserves recorded for multiple tax positions must be reasonably allocated among those tax positions when determining the size of each tax position.

Ranking of tax position

Required disclosure element for Part I of Schedule UTP

SCHEDULE UTP (Form 1120)

Department of the Treasury
Internal Revenue Service

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		P ☐ T ☐	-	☐	
		P ☐ T ☐	-	☐	

- All tax positions for which a reserve was recorded are ranked according to size, from largest to smallest.
- Tax positions for which a reserve was not recorded (i.e., expect-to-litigate tax positions) may be assigned any ranking number.
- The letter "T" is used to separately designate transfer pricing tax positions, and the letter "G" is used for all other tax positions.

Concise descriptions

Required disclosure element for Part III of Schedule UTP

Part III **Concise Descriptions of UTPs.** Indicate the corresponding UTP number from Part I, column (a). Use as many Part III pages as necessary (see instructions).

UTP No.	Concise Description of Uncertain Tax Position
1	The corporation incurred costs during the tax year to clean up environmental contamination that was caused by its activities in prior years as site A, which contains both its manufacturing facility and its corporate headquarters. The issue is the allocation of the cleanup costs between X's production and non-production activities under section 263A.

- In most cases, the concise description need only be a few sentences.
- It should describe the relevant facts affecting the tax treatment of the position and information that reasonably can be expected to apprise the IRS of the identity of the tax position and the nature of the issue.
- Taxpayers are *not* required to disclose:
  - The rationale for the UTP or the nature of the uncertainty.
  - An assessment of the hazards of a tax position.
  - An analysis of the support for or against the position.

Related IRS activities

Coordination with other requirements

- Forms 8275 and 8275-R
  - Separate Form 8275 or 8275-R need not be filed to avoid certain accuracy-related penalties with respect to positions disclosed on Schedule UTP
  - Includes economic substance disclosure
- Reportable transactions

Form **8275**

(Rev. August 2008)

Department of the Treasury
Internal Revenue Service

Disclosure Statement

Do not use this form to disclose items or positions that are contrary to Treasury regulations. Instead, use Form 8275-R, Regulation Disclosure Statement.
See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0889

Attachment
Sequence No. **92**

Name(s) shown on return | **Identifying number shown on return**

Part I **General Information** (see instructions)

(a) Rev. Rul., Rev. Proc., etc.	(b) Item or Group of Items	(c) Detailed Description of Items	(d) Form or Schedule	(e) Line No.	(f) Amount
1					

Examination process

Anticipated changes

IRS has stated that they intend to address some of the attendant issues including:

- Issuing Compliance Assurance Process (CAP) program guidance by year end that will:
  - Potentially increase the number of CAP taxpayers,
  - Create a formal pre-CAP program, and,
  - Create a CAP maintenance program for long-term CAP participants
- Reinvigorating the Industry Issue Resolution (IIR) process
- Publishing guidance
- Enabling resolution in the pre-filing environment

Large business and international process

- Directive sets expectation that examiners discuss these issues early in audit process
  - Use Quality Examination Planning Process
  - Discuss UTP issues prior to issuing initial IDRs
- Schedule M-3 working group
- Special training for examiners
- Centralized process to review UTPs and determine proper treatment and compliance with instructions
- Ann. 2010-75 notes the IRS will review completeness of Schedule UTP filed for 2010 tax year and will modify as appropriate

IRS programs to reduce uncertainty

- Compliance Assurance Process (CAP)
- Pre-Filing Agreements (PFA)
- Private Letter Rulings (PLR)
- Accounting method changes
- IRS Appeals
  - Early Referral
  - Fast Track

Privilege

Protections from disclosure

- Attorney-Client Privilege
- Federal Practitioner Privilege (IRC § 7525)
- Work Product Protection – "Ordinarily, a party may not discover documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative…" (Fed. R. Civ. P. 26(b)(3)(A))

No Protection

- Business advice – The mere presence of in-house counsel cannot create privilege
- Tax return preparation

U.S. v. Deloitte (DC Cir.)

- Ruled that
  - (i) documents created as part of an independent audit can be protected work product if prepared "because of" the prospect of litigation, even if used for other business purposes; and
  - (ii) the disclosure of work product protected materials (*e.g.*, tax opinions) to a financial auditor does not waive work product protection
- Unclear whether *Deloitte* and *Textron* can be reconciled, particularly if the First Circuit did apply a stringent new "prepared for use in possible litigation" standard
- *Deloitte* decision does not address or have any effect on the auditing standards that independent financial auditors must follow

Revised IRS policy of restraint

Ann. 2010-76 expands and clarifies the IRS policy of restraint regarding tax accrual workpapers

- IRS examiners will not assert that privilege has been waived with respect to an otherwise privileged document provided to an independent auditor as part of an audit of the taxpayer's financial statements, unless:
  - The taxpayer has taken any other action that would waive the privilege, or
  - Request for tax accrual workpapers is made under IRM 4.10.20.3 (regarding the taxpayer's involvement in listed transactions and the unusual circumstances standard)
- Allows taxpayers to redact the following items from any tax reconciliation workpapers relating to the preparation of Schedule UTP it is asked to produce during an examination:
  - Working drafts, revisions, or comments concerning the concise description of tax positions reported on Schedule UTP;
  - Amount of any reserve related to a tax position reported on Schedule UTP; and
  - Computations determining the ranking of tax positions to be reported on Schedule UTP or the designation of a tax positions as a Major Tax Position.

Impact on financial reporting

Implications for financial reporting

- Management is responsible for tax-related amounts and disclosures included in an entity's financial statements
  - Developing and maintaining evidence to support such amounts and disclosures
  - Designing and maintaining effective internal control over financial reporting to enable the preparation of financial statements that are free from material misstatement
- Auditors are responsible for planning and performing audit procedures to obtain sufficient appropriate audit evidence that the financial statements are not materially misstated
  - Auditor's ability to obtain such evidence and form an opinion on financial statements being audited may be impacted
  - Failure to design and maintain effective ICFR may be a material weakness or significant deficiency that auditors will be required to evaluate and communicate to management and those charged with governance
- Ann 2010-75/Schedule UTP do not alter these responsibilities and obligations of management and auditors

Managing the impact

Managing the impact

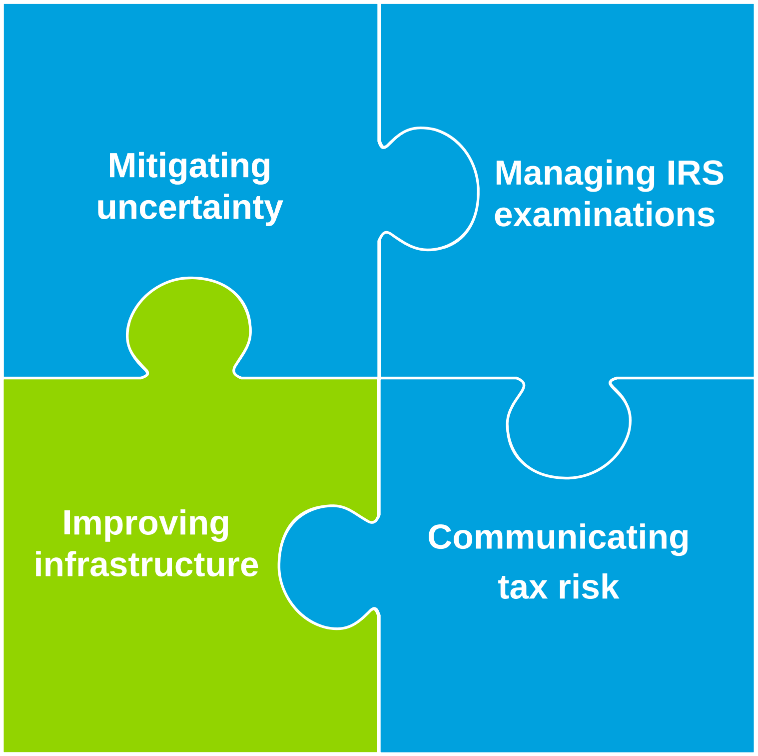
Mitigating uncertainty

- Accounting method changes
- Tax planning, contemporaneous analysis (including opinions) and documentation to support and/or strengthen positions/transactions
- Private Letter Rulings
- Pre-Filing Agreements

Managing IRS examinations

- Alternative Dispute Resolution
  - Compliance Assurance Process (CAP) Program
  - IRS Appeals
    - Early Referral
    - Fast Track
- Examination management
  - Strategy
  - Technology

Improving infrastructure



- Resources
  - Identifying and managing new UTPs as they arise
  - Completing the schedule
- Process
  - Determining positions to be disclosed
  - Determining how new requirement fits into existing tax workflow
  - Determining rank
  - Drafting concise statement
- Technology
  - Streamlining data
  - Tax provision software

Communicating tax risk

– Tax risk intelligence
  - Tax impact on business risks
  - Balancing rewarded and unrewarded risk
    – Rewarded risk (the value gained through risk appropriate tax planning)
    – Unrewarded risk (the value lost through risk taking that results in penalties or overpayments)

– Methodology and tools
  - Tax risk interviews
  - Tax risk workshops
  - Tax risk mapping
  - Tax decision framework

Actions to consider

Now

- Assess processes
  - Plan preparation and review processes
  - Consider impact on resources, controls and procedures
  - Determine additional information needed during provision cycle
- Mitigate uncertainty
  - Tax accounting method changes
  - Planning, analysis, documentation
  - IRS programs (e.g., PFAs or PLRs)
- Prepare descriptions
  - Recognize many UTPs will be recurring
  - Draft and get approval for these now

Soon

- Consider compliance or other technology solutions
- Improve infrastructure and processes
  - Coordinate with financial statement processes for income taxes
  - Streamline and enhance use of data and technology
- Determine IRS examination strategy
- Discuss privilege with legal counsel
- Update tax department processes/controls
- Request resources

Ongoing

- Communicate/update C-suite, AC, board about UTP and other Tax Risk matters
- Evaluate and document financial statement and tax return reporting of UTPs as transactions occur
- Monitor administrative, regulatory, legislative and judicial changes that impact UTPs
- Observe state activity

Introduction to the Global Provision

Global – Same FAS 109 / ASC 740 "Equation"

Total Tax Expense	=	Current Tax Exp (CTE)	+	Deferred Tax Exp (DTE)	+	Noncurrent Tax Exp (NTE)

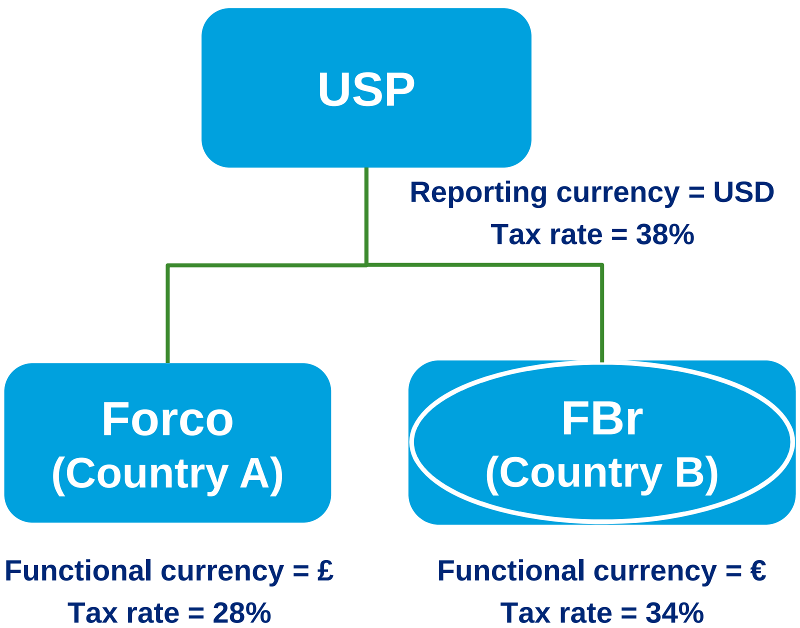
CTE = Current Taxes Payable

DTE = Change in Deferred Tax Assets and Liabilities

NTE = Provision Effect of Changes in Noncurrent Taxes Payable

	Current Tax (Payable) Receivable			Deferred Taxes Current (DTL) / DTA			Deferred Taxes Non-Current (DTL) DTA			Tax Provision Expense (Benefit)		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Beginning												
JEs												
Ending												

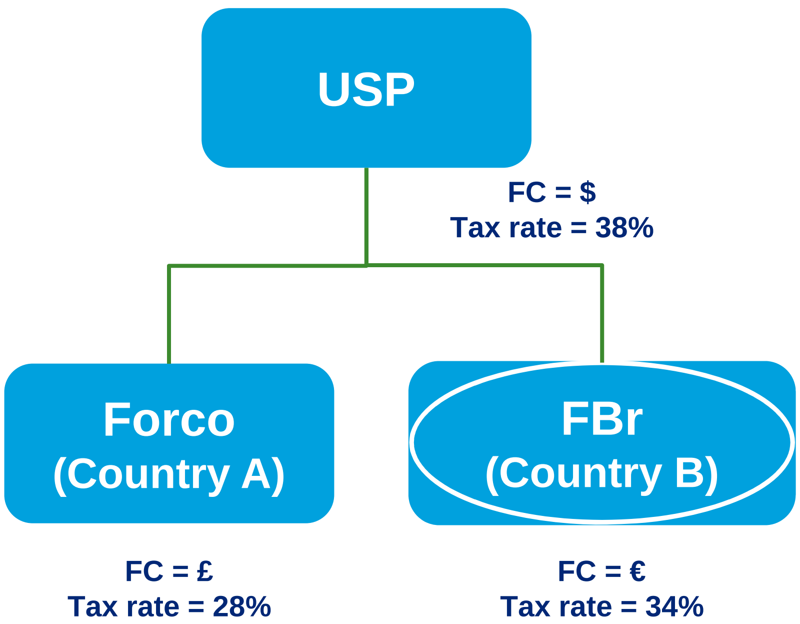
The Global Tax Provision – Overview



- USP's global tax provision
  1. U.S. tax on U.S. operations (USP)
  2. U.S. tax on non-U.S. operations (FBr)
  3. U.S. tax on investments (Forco and FBr)
  4. Non-U.S. tax on non-U.S. operations (Forco and FBr)

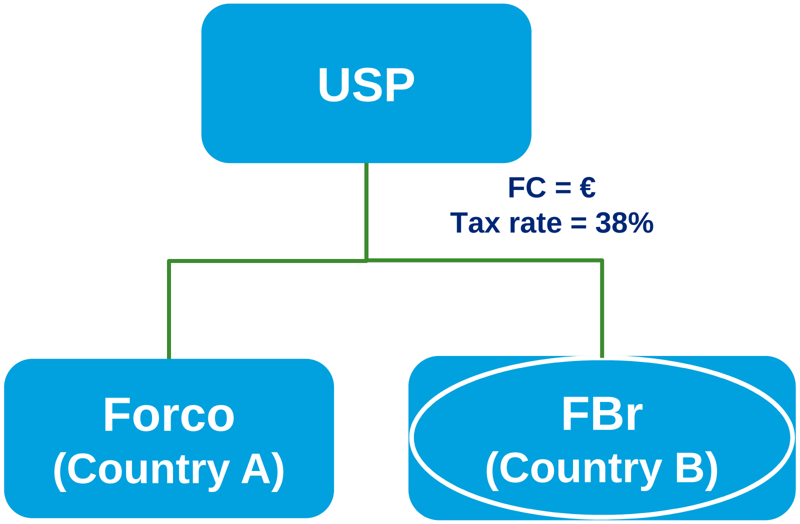
- Entity by entity / jurisdiction by jurisdiction analysis

1) U.S. Tax on U.S. Operations



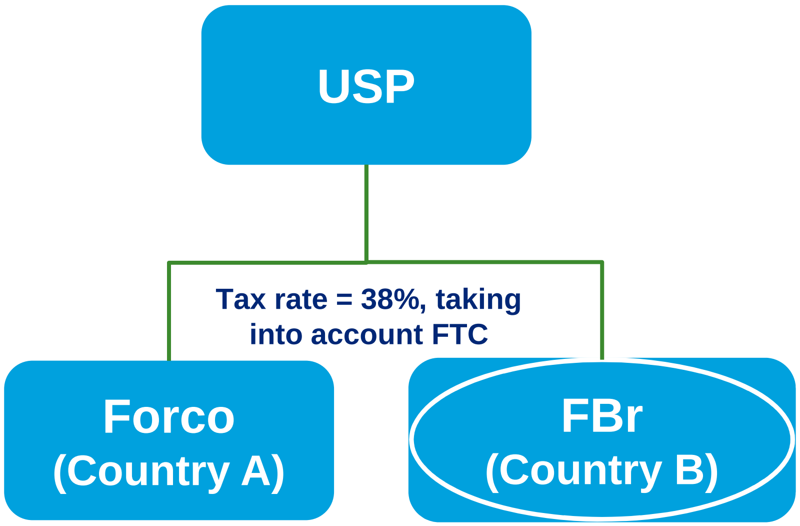
- Follow steps to compute U.S. tax provision for USP's U.S. activities
  - Creates "inside" basis differences (at USP level)
  - Use functional currency
  - Apply USP tax rate

2) U.S. Tax on Non-U.S. Operations



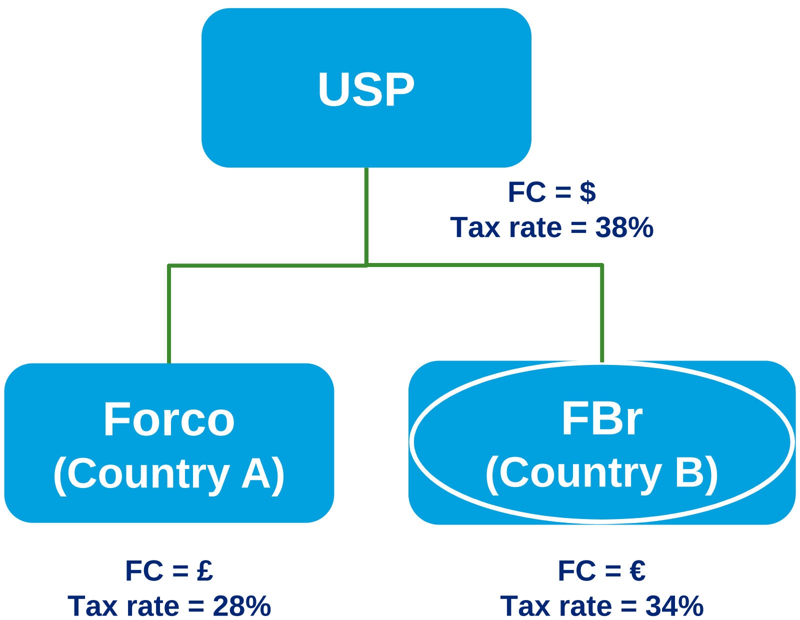
- USP includes FBr activities when computing USP’s tax provision
  - Creates “inside” basis difference
  - Use functional currency (generally FBr’s currency)
  - Apply USP tax rate
- Special consideration
  - Foreign currency transactions and translation
  - Branch accounting
  - Intercompany transactions

3) U.S. Tax on Investments



- USP tax provision includes any tax related to the calculation of deferred taxes for basis differences in foreign investments
  - UPS's U.S. tax liability/benefit
  - "Outside" basis difference
- USP determines whether a deferred tax asset or liability is required for investments in Forco and FBr
- Special considerations
  - Foreign currency transaction and translation
  - APB 23 / ASC 740-30

4) Non-U.S. Tax on Non-U.S. Operations



- Follow steps to compute Country A and Country B tax provisions
  - Creates "inside" basis differences
  - Use functional currency
  - Apply local country tax rate
- Where two (or more) separate income tax systems apply to a different tax base, calculate the tax provision separately for each income tax; for example:
  - U.S. state taxes
  - German trade tax
  - Italian IRAP (if applicable)

Local Tax and Statutory GAAP to U.S. GAAP

Local GAAP books and records

Convert to U.S. GAAP

U.S. GAAP books and records

Convert to local tax

Local tax books and records

All differences between U.S. GAAP and local tax basis of assets and liabilities must be analyzed for each taxpaying component on an entity-by-entity and jurisdiction-by-jurisdiction basis

International Tax Update January – September 2010

Brazil
Government Aid for Research & Development

Brazil's official gazette published Provision Measure 497/2010, which included a number of tax changes. ***Enactment Date***: July 29, 2010 (Effective on same date)

•Most notable change is the exclusion from the tax basis of government aid for projects related to research, development and innovation when determining certain taxable income, including:

- Corporate income tax, social contribution on net income, the Program for Social Integration contribution ("PIS"), and the Contribution for the Financing of Social Security ("COFINS").

•Exclusion applies only to government aid made under Laws 10,973/2004 and 11,196/2005.

•Expenses paid in association with the government aid are not deductible for tax purposes and do not create credits related to PIS or COFINS.

China
Circulars 18 and 19

Chinese State Administration of Taxation ("SAT") issued Circulars 18 and 19.
Enactment Date: February 20, 2010

Circular 18: Representative offices ("RO") formerly exempt from corporate income tax and Business Tax ("BT") may now be required to pay both.

- Methods of computing tax: "Actual amount" or "deemed amount"
- Rate increased from 10% to no less than 15%
- Effective date: Retroactive as from January 1, 2010

Circular 19: Applicable to nonresident companies that derive China-source income from establishments in China, as well as non-China-source income that is effectively connected with the establishments in China. Profit rates of 15%-50% for other establishments of nonresident companies in China.

- Tax authorities may assess taxable income using deemed profit methods
- Deemed profit rates:
  - Provision of construction, design and consulting services: 15%-30%
  - Provision of management services: 30%-50%
  - Provision of other services or operations other than services: No less than 15%
- Effective date: Upon issuance

India
2010/11 Budget

The 2010/11 India Budget includes the following major changes.
Enactment Date: May 10, 2010 (Effective Date: Various)

•**Surcharge for Domestic Companies:** Rate will decrease from 10% to 7.5%.

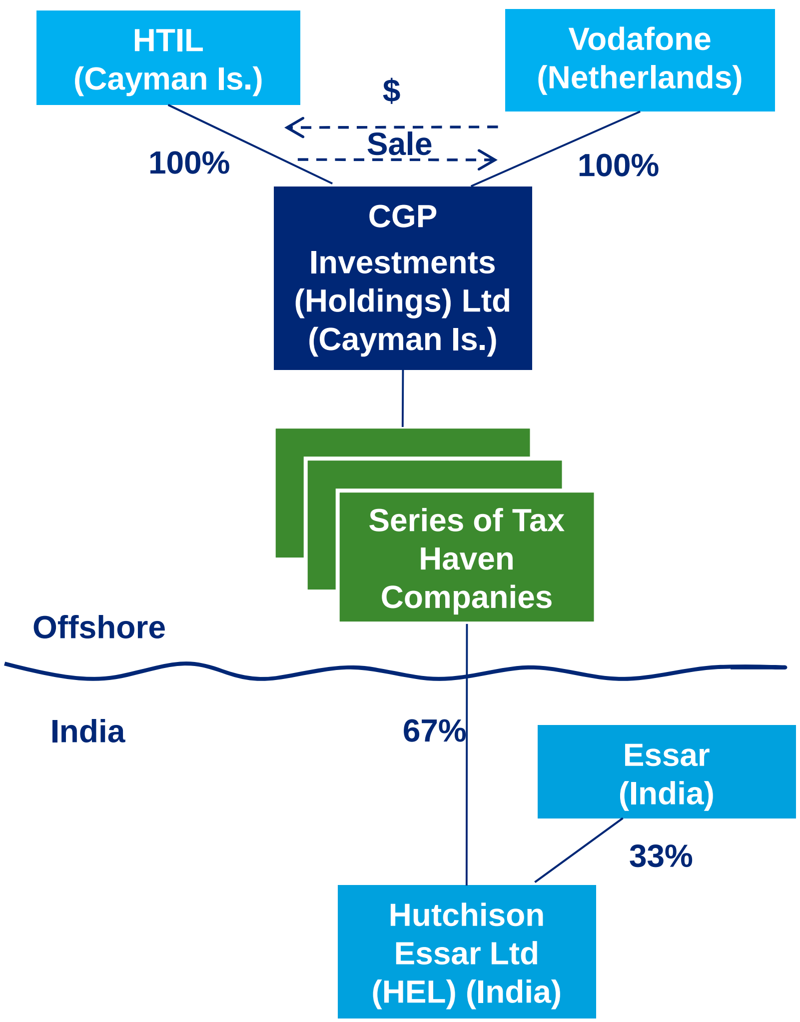
•**Minimum Alternative Tax (MAT):** Rate will increase from 15% to 18% for domestic and foreign companies.

- Both changes effective for FY 2010/11

•**Taxation of Nonresidents:** Proposed amendment would deem income in the form of interest, royalties or fees for technical services paid by a resident of India to a nonresident as arising in India.

- Currently, when such income is deemed to accrue or arise in India, it is subject to tax in the hands of a nonresident, regardless of whether the nonresident has a residence, place of business or business connection in India. As a result, such income would be subject to tax in India, regardless of whether the nonresident rendered the relevant services in India.

India
Transfer of Controlling Interest
Vodafone Controversy



- **September 2010**: **Bombay High Court Decision** - It would be simplistic to assume that the entire transaction between HTIL and Vodafone was fulfilled merely upon the transfer of a single share of a Cayman Islands company.

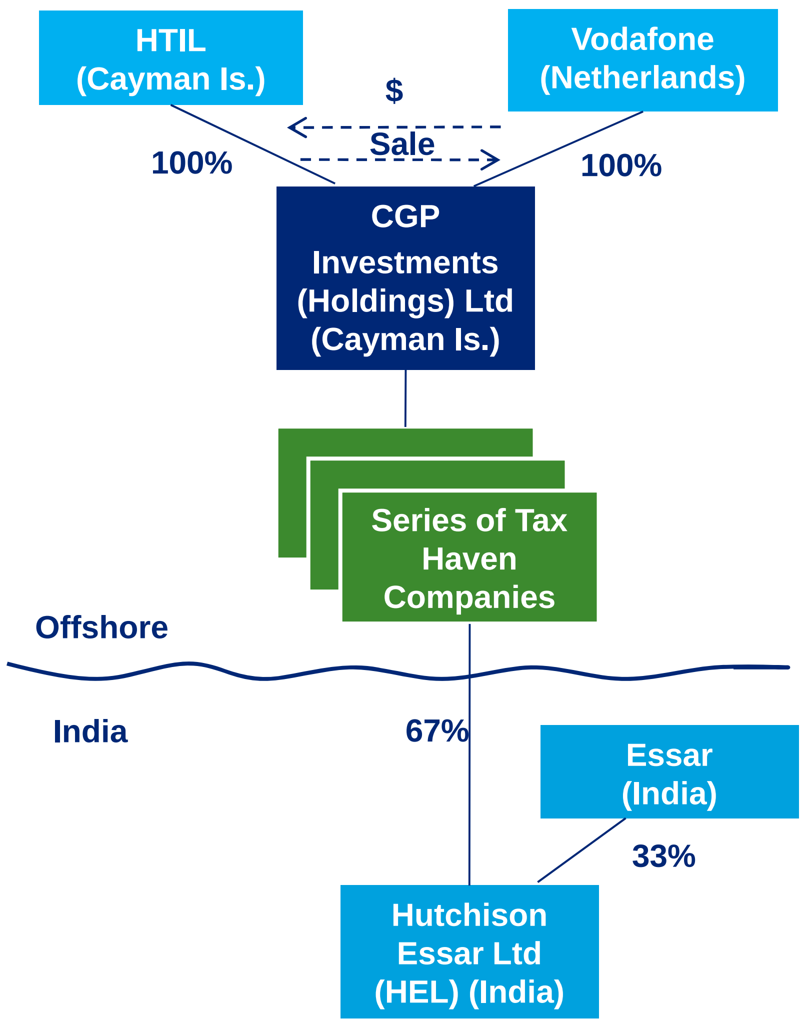
  - The transactional documents recognize independently the rights and entitlements in relation to the Indian business transferred

  - Nature of the transaction has to be ascertained from the covenants of the contract and from the surrounding circumstances.

  - High Court has refrained from adjudicating on the methodology pursuant to which the total consideration should be apportioned.

  - Vodafone has challenged the High Court decision before the Supreme Court of India

India
Transfer of controlling interest
Vodafone controversy



Issues:

- Whether Vodafone controversy would be applicable in all cases and whether investment in India through Mauritius/Cyprus route gets jeopardized.
- Whether in light of Vodafone decision, companies should be advised to withhold tax on payments made outside India for acquiring of shares of intermediary holding companies.

Ireland
2010 Finance Bill Highlights

Enactment Date: April 3, 2010 (Effective Date: January 1, 2010)

•**Ireland as a Intellectual Property Holding company**: A number of key changes have been introduced impacting Ireland's standing as a location in which to acquire -- by purchase or by license-- intellectual property (IP) for use or onward license.

- **Purchase of IP-** Clawback reduced from 15 yrs to 10 years; expansion of definition of IP
- **Royalties Receivable-** In effect, as from 1 January 2010, foreign tax credit relief is available for foreign tax suffered on royalty income that is part of a trade, even where there is no treaty relief available.

•**Ireland as a Holding Company**

- **Dividends**: 12.5% rate extended to dividends paid out of trading profits by a non-EU/DTA resident company, provided the taxpayer meets certain conditions.

– Previously only available to the trading profits of a company resident in an EU state or in a country that has entered a treaty with Ireland.

- **Interest Paid**: Financing transactions for corporates could be adversely affected by a change that provides that relief from Irish withholding tax on interest payable by companies in the course of a trade to an EU/DTA resident recipient only applies where the interest payment is liable to tax in the recipient's country.

Korea
Tax Incentive Limitation Law (“TILL”)

Deferral of corporate income tax rate reductions:

•According to 2008 revisions to the Corporate Income Tax Law (“CITL”) , the corporate income tax rate (exclusive of the 10% resident surtax) for FY 2010 and onwards would have been reduced from 11% to 10% for a tax base up to KRW 200 million and from 22% to 20% for a tax base over KRW 200 million.

•The recent changes to the CITL ***postpone*** until 2011 the application of a reduced rate for a tax base exceeding KRW 200 million. The applicable corporate income tax rates (and including the resident surtax in parentheses) are as follows. ***Enactment Date***: January 1, 2010 (Effective same date).

Tax base (KRW)	FY 2009	FY 2010	FY 2011	FY 2012 onwards
Up to 200 million	11% (12.1%)	10% (11%)	10% (11%)	10% (11%)
Above 200 million	22% (24.2%)	22% (24.2%)	22% (24.2%)	20% (22%)

Korea
Tax Incentive Limitation Law (cont'd.)

•**Investment tax credit for energy saving facilities**: TILL extends the sunset clause for an investment tax credit for energy saving facilities until December 31, 2011.

- Credit amount is 20% of the investment amount, capped at 30% of income tax payable for the fiscal year.

•**R&D tax credit**: Tax credit rates for R&D expenses incurred with respect to the New Growth Engine Industry or Original Source Technology are increased to 20% (30% for small and medium sized companies ("SMC"))

- Previous rates: 3%-6% of R&D expenses or 40% of incremental R&D expense spending from non-SMCs; 25% of R&D expense or 50% of incremental R&D expense spending for SMCs.

•**Tax exemption on royalty payments received by nonresidents**: Exemption from corporate or individual income tax on royalties received by nonresidents that had introduced certain high-technologies in Korea is abolished.

Mexico
Regulations issued to clarify tax consolidation recapture rules

The Mexican Ministry of Finance published the 4th resolution of changes to the 2009 Omnibus rules regarding tax consolidated rules.

Enactment Date: March 31, 2010 (Effective Date: January 1, 2010)

Sweden
Cross-Border Group Contributions

Swedish Parliament enacted new rules on cross-border group contributions, which under certain circumstances, will allow a Swedish parent company to deduct a final loss in a wholly and directly owned foreign subsidiary within the European Economic Area (EEA). ***Enactment Date***: May 5, 2010 (Effective Date: July 1, 2010)

- Subsidiary must have been liquidated and there is a final loss in the subsidiary
- The deduction for the loss may not create a deficit in the Swedish part of the group
- An amount not exceeding the loss of the subsidiary at the end of the last full fiscal year prior to, or at the conclusion of, the liquidation may be deducted.

United Kingdom
Tax Rate Reduction

The United Kingdom enacted a portion of its Emergency Budget 2010 when the Finance (No. 2) Act received Royal Assent**.** ***Enactment Date***: July 27, 2010.

•The corporate income tax is reduced from 28% to 27% effective April 1, 2011

United States

President Obama signed into law the "Education Jobs and Medicaid Assistance Act" (H.R. 1586), which includes provisions to tighten foreign tax credit rules. ***Enactment Date***: August 10, 2010 (Effective Date: Various)

•Foreign Tax Credit (FTC) Splitting

•Section 956 Inclusions from Lower Tier CFCs

•Covered Asset Acquisitions

•Modifications to the interest allocation rules concerning U.S. activities conducted by foreign subsidiaries

•FTC Limit on Items Resourced Under Treaties

•Repeal of 80/20 Rules

•Restrictions on §304 transactions by CFCs indirectly owned by foreign parent corporations

United States
Expiration of Section 954(c)(6) Rules

Background: IRC Section 954(c)(6) (look-thru rule) operates to reduce the global effective tax rate for certain companies

- Excludes from U.S. federal income tax certain interest, rents, and royalties accrued by a CFC that would be taxable pursuant to subpart F
- Look-thru rule lapsed as of January 1, 2010

Impact:

- Include tax expected on amount of subpart F income that would be recognized for current year assuming look-thru rule is not extended
- Companies should continue to evaluate their deferred tax position with respect to basis differences in light of the lapse of the look-thru rule
- Expected to impact the ability of some U.S. companies to assert that certain undistributed earnings are subject to the indefinite reversal criteria

Other Countries

Country	Change	Enactment Date	Effective Date
New Zealand	• Reduction to the Corporate Tax Rate from 30% to 28% • A two year transitional period for imputing dividends at the existing 30% rate. • Reduction in the safe-harbor threshold from inbound thin capitalization from 75% to 60% from the 2011/2012 income year.	May 27, 2010	April 1, 2011
Taiwan	• Reduction in the Corporate Income Tax Rate from 20% to 17%	June 15, 2010	January 1, 2010
Hungary	• Reduction in the Corporate Tax Rate from 19% to 10%. The 10% rate applies to a tax base up to HUF 500 million (approximately $2.3 million), with the 19% tax rate continuing to apply to a tax base exceeding this ceiling	August 13, 2010	July 1, 2010

Tax Accounting Update

Accounting for income taxes quarterly hot topics – March 2010

- Proposed change to IRC Sec. 139A enacted on March 23, 2010
- Valuation allowance on a deferred tax asset related to debt securities
- **Loss on worthless securities**
- Cost sharing agreements and share-based compensation costs
- **Lapse of IRC Section 954(c)(6) – refer to page 54**
- Oregon corporate income tax law change
- Colorado new law temporarily limits NOLs and related changes
- IRS Announcement 2010-9
- Venezuela’s highly inflationary economy could impact your financial statements

Accounting for income taxes quarterly hot topics – June 2010

- FASB issues exposure draft on accounting for financial instruments (update on previously reported topic)
- Potential 1245 recapture in the stock of a subsidiary
- **Codification of economic substance doctrine**
- House passes amendment to extenders legislation
- District of Columbia tax law change
- State amnesty programs
- HIRE Act incorporates provisions Intended to curb offshore tax evasion
- **A tidal wave of accounting changes is on its way**

Accounting for income taxes quarterly hot topics – September 2010

- FASB issues exposure draft on accounting for revenue for contracts with customers
- FASB issues exposure draft on accounting for leases
- **Obama signs international revenue raisers – refer to page 53**
- **United Kingdom corporate income tax rate reduction receives Royal Assent – refer to page 52**
- California amends sales factor cost of performance rules for services and intangibles to include payments made to agents and independent contractors
- Massachusetts tax law change
- State amnesty programs
- Relief available for issues related to IRC Section 367 gain recognition agreement filings
- Disclosures for certain loss contingencies may soon resemble UTB disclosures

Loss on Worthless Securities

- IRC Section 165(g)(3) allows a loss on worthless securities to be deducted against a domestic corporation's ordinary income if the corporation (foreign or domestic) whose securities are worthless is "affiliated" with the domestic corporation
  - A corporation is treated as "affiliated" with the taxpayer only if:
    - (A) the taxpayer owns directly stock in such corporation, meeting the requirements of Section 1505(a)(2), and
    - (B) more than 90 percent of the aggregate of its gross receipts for all taxable years have been from sources other than royalties (the "gross receipts test)
  - If the gross receipts test is not met, then the loss is a capital loss
- ASC 740 implications – a deferred tax asset (DTA) shall be recognized for an excess of the tax basis over the book basis that is essentially permanent if it is apparent that the temporary difference will reverse in the foreseeable future
  - If a company is expecting a worthless stock deduction for one of its subsidiaries, it may be appropriate to recognize the DTA prior to the actual worthless stock deduction being claimed on the tax return
  - A company may also need to assess the need for ASC 740-10 (FIN 48) with respect to character, amount and disclosure

Codification of Economic Substance Doctrine

•IRC Section 6662 was amended to impose a strict liability penalty for an underpayment attributable to any disallowance of claimed tax benefits if a transaction lacks economic substance or fails to meet the requirements of any similar rule of law

- Codified in connection with the economic substance doctrine in the Health Care and Reconciliation Act of 2010
- Penalty rates:
  - 20% of the underpayment
  - 40% if taxpayer does not disclose relevant facts on tax return
- No reasonable cause exception available to reduce penalty
- Applies to transactions entered into after March 30, 2010 (enactment)

Companies should consider this new provision when determining the amount of penalties related to unrecognized tax benefits

A tidal wave of acctg changes is on its way

	Expected Date					
	2010			2011		
	2Q	3Q	4Q	1Q	2Q	2H
Joint FASB/IASB Projects						
Presentation of Financial Statements						
Financial Statement Presentation				E		R, F
Discontinued Operations				E		F
Other Comprehensive Income	E		F			
Financial Instruments						
Accounting for Financial Instruments	E		R		F	
Offsetting			E	R	F	
Financial Instruments With Characteristics of Equity				E		R, F
Leases		E	R		F	
Revenue Recognition	E		R		F	
Consolidations		R	E*			
Fair Value Measurements	E			F		
FASB-Only Projects						
Disclosure of Certain Loss Contingencies		E, F				
Going Concern			E	F		

E Exposure Draft **F Final Document** **R Roundtable Discussion**

Valuation Allowances

Valuation allowance – general overview

- Reduces DTA to amount “more-likely-than-not” to be realized (valuation allowance may offset a portion or all of DTA)
- All gross DTAs (vs. net of DTLs) should be evaluated including
  - the tax-effect of deductible temporary differences or
  - a tax attribute such as a carryover of an NOL, loss or credit
- Evaluation is made after any unrecognized tax benefit adjustments
- Unrecognized tax benefit (”UTB”), not valuation allowance, addresses technical quality of deferred tax asset
- Future realization depends on sufficient taxable income (of appropriate character, jurisdiction and timing)
- Based on specific facts and circumstances
- Should be well-documented since based on management judgment and generally impacts the income statement

Valuation allowance – general overview (cont.)

- Existence of negative evidence requires more positive evidence
- Cumulative losses
  - among the most objectively verifiable form of negative evidence available
  - do not automatically trigger a full valuation allowance — evaluate all factors
- Carefully consider four possible sources of income
  - **Future reversals of taxable temporary differences -** scheduling is important when amount of valuation allowance could vary depending on timing of taxable income
  - **Future taxable income exclusive of reversing taxable temporary differences and tax attributes -** scheduling is important when amount of valuation allowance could vary depending on timing of taxable income
  - **Taxable income in prior carry back year**
  - **Tax planning strategies -** must be prudent and feasible
- Consistency is important
  - between estimates of future earnings used for analyzing valuation allowances and those used for impairments
  - between disclosures

Question and answer

Join us for the following webcasts:

Proposed New Schedule for Uncertain Tax Position Reporting: Transfer Pricing Implications on December 8th at 2PM ET

Tax Accounting: 2010 Year in Review on December 13th at 2PM ET

Quarterly Accounting Roundup: An Update of Important Developments on December 15th at 2PM ET

New Developments in Tax Accounting and Interim Reporting Considerations on March 28th at 2 PM ET

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